

MINUTES OF ROANOKE CITY AUDIT COMMITTEE

December 19, 2005

1. CALL TO ORDER:

The meeting of the Roanoke City Audit Committee was called to order at 1:25 p.m. on Monday, December 19, 2005, with Chair, Dr. M. Rupert Cutler, presiding.

- The roll was called by Mrs. England

Audit Committee

Members Present: Dr. M. Rupert Cutler, Chair
Mayor C. Nelson Harris
Vice-Mayor Beverly T. Fitzpatrick, Jr.
Alfred T. Dowe, Jr. (late)
Sherman P. Lea
Brenda L. McDaniel
Brian J. Wishneff

Others Present: Drew Harmon, Municipal Auditor
Darlene L. Burcham, City Manager
William M. Hackworth, City Attorney
Jesse A. Hall, Director of Finance
Ann Shawver, Deputy Director of Finance
Dawn Hope, Manager of Accounting Services
Rolanda Russell, Asst. City Manager for Community Development
James Grigsby, Acting Asst. City Manager for Operations
R. Timothy Conner, Partner, KPMG LLP
Peter J. Ragone, II, Senior Manager, KPMG LLP
Doris England, Administrative Assistant

2. FINANCIAL KPMG AUDIT REPORTS – JUNE 30, 2005:

- A. Report to the Audit Committee of City Council
- B. Comprehensive Annual Financial Report and Auditors' Opinion
- C. Management Letter
 - Management Response
- D. Pension Plan Report to the Board of Trustees
- E. Pension Plan – Comprehensive Annual Financial Report

Dr. Cutler ordered that items A through E be received and filed. There were no objections to the order. The chair recognized Mr. Harmon for comments. Mr. Harmon stated that state code and the city charter require that the city have an audit performed by an independent firm. State law also requires the independent audit firm be allowed to make a presentation before the governing

body before December 31 of each year. Mr. Harmon stated that was the purpose for this meeting, and he encouraged the Audit Committee members to ask questions to gain perspective of the financial statements and financial condition of the city. He then recognized Mr. Conner of KPMG.

Mr. Conner reviewed the following reports included in the city's Comprehensive Annual Financial Report or CAFR.

- Independent Auditors' Report. This is on page 20 of the CAFR and is a report on the basic financial statements of the city.
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This report is on page 129 of the CAFR. Any material weaknesses would have been reported here.
- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. This report is on page 130 of the CAFR. There was an issue of non-compliance in this report; however, the condition was not determined to be a material weakness.
- Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grant Agreements. This report is on page 132 of the CAFR. There was an unqualified, or no exception, opinion there.

Mr. Conner referred to Mr. Ragone to continue with the next report. Mr. Ragone reported on the Schedule of Findings and Questioned Costs, which is listed on page 134 of the CAFR. He noted there was one finding in the city's School System regarding Allowable Costs/Cost Principles in Program Title II-A and Special Education Cluster. Mr. Ragone stated the condition was that time certifications for employees that work 100% on federal programs as required by OMB Circular A-87 were not prepared and documented in the personnel files. These certifications must be prepared at least semi-annually, and management has agreed to start doing this on January 1 and June 30.

Dr. Cutler referred to the Report to the Audit Committee and asked for an explanation of the first paragraph of page four of the letter from KPMG to the members of the committee. Under the heading, "Difficulties Encountered in Performing the Audit," the letter states "...due to the time required for management to close the books for the year ended June 30, 2005 and prepare the government-wide financial statements, the overall audit and reporting process required a significant amount of time." Mr. Conner replied that the significant amount of time was due to some of the transactions that occurred this year. These are stated in the Significant Accounting Policies and Unusual Transactions section on page one of the letter from KPMG in the Report to the Audit Committee. The city was required to adopt a new disclosure, Government Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures. In addition, this year the CAFR includes the Roanoke Redevelopment and Housing Authority as a separate component unit

of the city. Another transaction was the formation of the Western Virginia Water Authority as of July 1, 2004, and the assets and liability that were transferred over. Due to these transactions, it took longer to complete the Financial Statement Audit than had been anticipated.

Mr. Conner completed his review of the Report to the Audit Committee. He then asked Mr. Ragone to report on the Management Letter. Mr. Ragone thanked Dawn Hope for the great job she did this year and for the additional work done in bringing in a new component unit.

Mr. Ragone stated the Management Letter covered three sections, one of which was the Proper Coding of Reimbursement Requests as related to the city's Social Services Department. When asked by Dr. Cutler if the improper coding cost the city money, Mr. Ragone said it would be difficult to say. The process is complicated, and many times the reimbursement is tied to a local government match. The second section was the Future Accounting Pronouncements, which include Governmental Accounting Standards Board (GASB) Statements No. 42, 44, 45, 46, and 47. The third section is the Single Audit Findings relating to OMB Circular A-133 as discussed previously.

Chairman Cutler asked for more detail as to the improper coding of the city's reimbursement requests and what costs were incurred. He said it appeared on page two of the Management Letter that the city lost \$396,000. Mr. Ragone said if the funds had been fully reimbursed, the city may have gotten that amount, but many times there is a 50/50 match or an 80/20 match, and it depends on whether the expenditure was classified as reimbursable or nonreimbursable. Dr. Cutler asked Ms. Burcham to comment on this issue. Ms. Burcham stated that Mr. Ragone was correct in that it depends on the particular category as to how much reimbursement one can hope to achieve, and the actual amount may turn out to be less. There is generally almost always a local match. Ms. Burcham stated she understood the city received the full amount of federal reimbursement, but the state refused to pay their proportionate amount because the state's fiscal year ends on May 31. Any leftover funds roll over into the state's next fiscal year. This complicates matters because the city's fiscal year ends on June 30. Ms. Burcham stated she had contacted the Commissioner of Social Services and asked him to reconsider. The coding was done at the direction of the state representatives, which complicated the reimbursement. Ms. Burcham explained the state often has to turn back federal money because it does not have matching funds and cannot pass the reimbursements on to the localities. She said she thought the city would have had some nonreimbursed expenditures even if the coding had been done correctly. Ms. Burcham estimated the city potentially lost about \$150,000. She continues to work with the Commissioner to reconsider additional reimbursement. Chairman Cutler asked if training was being offered to the city's Social Services employees, and Ms. Burcham stated this was another problem in that the state does not offer training. She said a Budget Coordinator had been hired and that person has spent considerable time in Richmond, since being hired, learning what she can.

Mr. Fitzpatrick stated that if the state fiscal year ends a month before the city's, we should plan to submit something regardless; and he stated perhaps that was being done already. He suggested that perhaps the city should look at doing something legislatively to address the coding issue and the state's lack of consistency and willingness to help.

Chairman Cutler recognized Mr. Conner for comments on the audit of the City of Roanoke Pension Plan. Mr. Conner stated KPMG issued a clean, unqualified opinion in regard to the audit. In the Report to the Board of Trustees, Mr. Conner noted that under Significant Accounting Policies and Unusual Transactions, the pension plan also had to adopt GASB 40. This involved quite a bit of additional disclosure. There were no adjustments proposed, no uncorrected misstatements, and no disagreements.

Chairman Cutler asked the committee for any questions on the Pension Plan Report to the Board of Trustees and the Pension Plan Comprehensive Annual Financial Report. There were no questions.

Chairman Cutler complimented Mr. Hall and Ms. Shawver on the fine job they had done on the CAFRs and asked Mr. Hall if he had any comments. Mr. Hall stated he was prepared to present a 10 to 15 minute overview of the statements in the CAFR, but he realized that time would not allow this since City Council was to be in session at 2:00 p.m. Chairman Cutler asked Mayor Harris if the Audit Committee could recess and meet again following the City Council meeting. Mayor Harris replied that would be fine.

The Audit Committee meeting was recessed at 2:00 p.m.

The Roanoke City Audit Committee reconvened at 4:00 p.m. with Chair, Dr. M. Rupert Cutler, presiding. The chair recognized Mr. Hall for comments on the CAFRs. Mr. Hall noted that his department gets awards every year for these reports, and one of the primary reasons for that is they are more than basic financial statements. The CAFRs are not just financial data directed at financial people but also information booklets for citizens as well. Mr. Hall introduced Dawn Hope, Manager of Accounting Services, who was the primary architect in putting together the city's CAFR. Ms. Hope proceeded to explain what is included in the CAFR and how to use it.

Ms. Hope distributed a reference guide for the CAFR and explained it could be used to quickly look for an area without having to go to the Table of Contents. She stated the Comprehensive Annual Financial Report, or CAFR, for fiscal year ended June 30, 2005, contains four main sections. Each section has a distinct purpose. The sections are as follows.

- Introductory Section – This is the first main component of the CAFR and is an unaudited section because it is the place for the city to introduce itself to the reader. It contains an informative Letter of Transmittal,

which also lists achievements, a Directory of Principal Officials, and an Organizational Chart that allows the reader to know who is in charge of what function and a name of someone to contact if so desired.

- Financial Section – This is an audited section and is what the independent auditors, KPMG, attest to. Listed on page 20 is the Independent Auditors' Report from KPMG. Ms. Hope stated that Mr. Conner had referred to an "unqualified" opinion several times earlier in the meeting and she wished to explain what that was. It means KPMG recognizes that the city's financial statements present fairly, in all material respects, the financial position of the city. Therefore, the "unqualified" opinion is what is desired. She reviewed the Management's Discussion and Analysis on page 23 and the Basic Financial Statements beginning on page 35. Ms. Hope also reviewed the Notes to Basic Financial Statements beginning on page 51.
- Statistical Section – This portion of the CAFR beginning on page 111 includes 14 tables containing a variety of information. There is financial data covering 10-year trends, demographic information about the city, and miscellaneous data.
- Compliance Section – This section begins on page 121 and contains the Schedule of Expenditures of Federal Awards as well as the compliance letters from KPMG.

Chairman Cutler asked Ms. Hope how many copies of the CAFR were being printed, and she responded that 300 were being made. In addition, the CAFR is available electronically on the city's Web site. Mr. Hall explained that fewer copies were being printed than in past years when as many as 450 copies were made. He stated that interested parties such as bond-rating agencies and bankers request hard copies of the CAFR. Copies are also placed in the libraries.

Chairman Cutler recognized Mr. Hall for comments regarding the Pension Plan. Mr. Hall explained the Pension Plan CAFR contains sections including financial statements and data, lists of detailed investments, as well as an actuarial section dealing with contribution rates and demographic information. A Statistical Section provides additional information. Mr. Hall referred committee members to page 22 of the Pension Plan CAFR and pointed out that the City of Roanoke Pension Plan is a multiple employer defined benefit plan covering other entities that are actually spinoffs of what used to be city employees. Listed lower on that same page are the numbers of retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits deferred at time of separation, current employees with vested benefits and current employees with non-vested benefits.

Mr. Hall directed committee members to page 14 of the Pension Plan CAFR to the table entitled Changes in Net Assets. At the end of the year, the Net Assets Held in Trust for Pension Benefits totaled \$318,675,367. He also referred committee members to the Funded Status on page 15, which reflects the Plan's

ability to pay benefits. Mr. Hall noted that on page 60 of the Actuarial Section, there is a Schedule of Active Member Valuation Data. The average annual salary of general active members is just under \$32,000. The average annual salary of public safety active members is approximately \$40,500, almost \$9,000 more than general members. Also noted at the bottom of that page is the average annual allowance which is \$13,148.

Mr. Hall stated he would like to give credit to his pension staff who were not present. Andrea Trent, Retirement Administrator, initiated a curriculum on retiree information consisting of five separate parts. This gives employees good information on planning for retirement.

Chairman Cutler thanked Mr. Hall and his staff for their work on the Comprehensive Annual Financial Reports.

3. UNFINISHED BUSINESS:

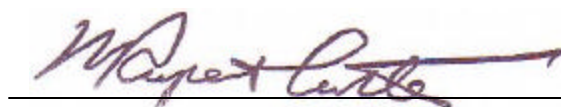
There was no unfinished business to come before the committee.

4. NEW BUSINESS:

There was no new business to come before the committee.

5. ADJOURNMENT:

There being no further business, the meeting was adjourned at 4:38 p.m.

A handwritten signature in dark ink, appearing to read "M. Rupert Cutler", is written over a horizontal line.

M. Rupert Cutler, Chair